

**HOUSING AUTHORITY OF THE CITY OF SEATTLE**  
**King County, Washington**  
**October 1, 1993 Through September 30, 1994**

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**Schedule Of Findings**

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1. Cash Management Pool Policy Needs Revision

The housing authority allows nonauthority entities to participate in its cash management pool. Sunset House, a nonowned, managed facility had a deficit balance in its cash management pool account of \$5,079 at September 30, 1994. This deficit balance is in fact a loan of housing authority cash to the Sunset House project.

The Washington State Constitution, Article VIII, Section 7 prohibits a municipal corporation from loaning its money.

This situation is a result of the HUD policy which limits project operating funds.

We recommend participation of nonowned entities in the cash pool be closely monitored so that their cash pool balance will always be positive.

2. Investment Policy Needs Revision

The housing authority has investments in corporate bonds.

The Washington State Constitution, Article VIII, Section 7 prohibits a municipal corporation from owning corporate bonds.

The housing authority's investment policy is based on adherence with the Washington State RCW, which does not prohibit ownership of such investments. The housing authority was unaware of the constitutional prohibition.

We recommend the housing authority revise its investment policy and consider the State Constitution requirements when determining allowable investments.

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**Schedule Of Federal Findings**

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1. Employee Time Recording Policy Needs Revision (All Federal Programs)

Since January 1994, the housing authority has not required employees defined as exempt under the Fair Labor Standards Act (FLSA) to complete time sheets. As a result, salaries for exempt employees who work on multiple activities have been charged to federal grants without required supporting documentation.

OMB Circular 87, *Cost Principles for State and Local Governments*, requires that employees' salaries and wages charged to federal grants be supported by time and attendance or equivalent records for individual employees.

The housing authority believed that FLSA eliminated the requirement for hourly time sheets and that hourly time sheets would jeopardize the exempt status of the exempt employees.

No questioned costs have been quantified.

We recommend the housing authority prepare personnel activity reports or equivalent documentation to support the distribution of salaries where employees work on multiple activities or cost objectives, regardless of FLSA status.

2. Interest On Certain Security Deposits Should Be Remitted To Tenants (Section 8, New Construction CFDA 14.182)

The housing authority does not remit interest earned on Market House security deposits to tenants.

HUD Handbook 4350.3, Chapter 4, Interest on Security Deposits, requires that interest earned on security deposits for certain federally funded programs be remitted to tenants when they move out of a unit. The Market House program is subject to this requirement.

The accounting for Market House was done consistently with other Section 8 buildings. These other Section 8 buildings, because they were built earlier, are not subject to this requirement.

As a result, although the amounts involved are small, Market House tenants are not receiving money rightfully theirs.

We recommend the housing authority adopt policies and procedures to calculate interest earned on security deposits for the Market House program and remit the proceeds to tenants upon move out. Additionally, the housing authority should determine whether amounts earned on tenant deposits related to tenants who have previously vacated should be remitted to such individuals, and make such payments where necessary.

3. Security Deposits And Other Funds Should Be Segregated (Section 8, New Construction CFDA 14.182 And Public Housing CFDA 14.850)

The housing authority commingles tenant security deposits with general funds.

HUD Handbook 2000.04 REV-1, Section 3-5, E. Security Deposits states:

If the project is bound by the Section 8 New Construction Substantial Rehabilitation regulations published in 1979 and 1980, the owner must place the security deposits in a segregated, interest bearing account in a federally insured depository. The balance of this account must at all times be equal to the total amount collected from the families then in occupancy, plus any accrued interest.

This requirement pertains to the Bayview and Market House programs.

Further, RCW 59.18.270 states that all security deposits be promptly deposited in a trust account.

The housing authority was investing and pooling these funds for the best return for the benefit of low income housing programs.

Deposits segregated in a trust account are at less risk than when commingled with other funds.

We recommend the housing authority adopt policies and procedures to segregate into a trust account security deposit funds for Section 8 and Public Housing.

4. Method Of Recording Inventory Costs Needs Refinement (Public Housing CFDA 14.850)

The housing authority's inventory costing methodology results in inventory usage being charged to programs using vendor list prices rather than actual cost. Actual cost can be different than vendor list prices due to vendor discounts being obtained or utilized, actual prices different from list prices, and other reasons.

OMB Circular 87, *Cost Principles for State and Local Governments*, states that allowable costs include only those costs actually incurred by individual programs.

Although the housing authority's procedures attempt to adjust inventory values to actual for significant differences, pricing differences can occur. Because all inventory is initially recorded in the Public Housing Fund and then recharged to other programs, the housing authority's current process can result in the diversion of federal funds to local (nonfederal) programs and vice versa.

This situation was caused by limitations in the inventory computer system and limited human resources to reconcile individual purchases.

Any questioned costs related to this finding were not quantified because we expect they would be insignificant.

We recommend the housing authority revise its inventory costing procedures to ensure that each program is charged actual inventory cost.

5. Documentation Of Social Security Number Verification Needs Improvement (Section 8, Moderate Rehabilitation CFDA 14.856, And Section 8, Existing Housing CFDA 14.857)

The housing authority did not include social security number verification in 2 of 25 Section 8 tenant files tested for eligibility. Verification requirements were met by 23 of 25 files.

24 CFR 750.10 requires the housing authority to obtain and verify the social security numbers assigned to an applicant and to each member of the applicant's household who is at least six years of age, when the applicant's eligibility under the program is being determined.

The housing authority is not consistently documenting compliance with 24 CFR 750.10.

Although policies and procedures are in place providing for compliance, these policies and procedures are not always followed.

We recommend the housing authority implement controls to ensure compliance with 24 CFR 750.10. In addition, all Section 8 files should be reviewed during the current year recertification process to ensure that each includes social security number verification. The housing authority has subsequently verified the social security numbers of the 2 residents identified in our testwork and added the documentation in the respective files.